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UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

DEEP SKY SOFTWARE, INC., a California Corporation,

Plaintiff,

vs.

SOUTHWEST AIRLINES CO., a Delaware Corporation,

Defendant.

Case No. 10-CV-01234-CAB (KSC)

Southwest's Application for Reasonable and Necessary Fees Pursuant to the Court's June 1, 2015 Order [Doc. No. 49]

I. Summary of Application for Attorneys' Fees

On June 1, 2015, the Court granted Southwest's Motion [Doc. No. 44] and declared this an "exceptional" case under 35 U.S.C. § 285. [Doc. No. 49]. The Court also ordered Southwest to file its application for reasonable and necessary fees no later than June 22, 2015. As detailed below, Southwest requests a total **$387,182.91.**

II. Legal Standard

"The court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U. S. C. § 285. Attorneys' fees under Section 285 includes "those sums that the prevailing party incurs in the preparation for and performance of legal services related to the suit." *Maxwell v. Angel-Etts of California, Inc.*, 53 F. App'x 561, 569 (Fed. Cir. 2002) (quoting *Central Soya v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1578, 220 USPQ 490, 493 (Fed. Cir. 1983) (internal quotations omitted).

When calculating reasonable attorneys' fee, the Court must consider both the reasonableness of the hourly billing rate and the number of hours required. *See Lafarge Conseils Et Etudes, S.A. v. Kaiser Cement & Gypsum Corp.*, 791 F.2d 1334, 1341-42 (9th Cir. 1986)(citations omitted). In addition, the Federal Circuit has explicitly interpreted "attorney fees" under Section 285 as including expenses & non-taxable costs as well as attorneys' fees. *Maxwell at* 569 (citing *Central Soya v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1578, 220 USPQ 490, 493 (Fed. Cir. 1983). The Federal Circuit has stated that "a case should be viewed more as an 'inclusive whole' rather than as a piecemeal process when analyzing fee-shifting under § 285." *Therasense, Inc. v. Becton, Dickenson & Co.*, 745 F.3d 513, 516 (Fed. Cir. 2014) (*citing Comm'r, I.N.S. v. Jean*, 496 U.S. 154, 161–62 (1990)). Consequently, district courts have the power under Section 285 to award fees "for the entire case, including any subsequent appeals" because of their "superior understanding of the litigation." *Id.* at 571 (*citing Jean*, 496 U.S. at 160). Time spent preparing and litigating fee petitions is also compensable. *See Anderson v. Dir., Office of Workers Comp. Programs*, 91 F.3d 1322, 1325 (9th Cir. 1996).

An application for attorney's fees must be evaluated for reasonableness compared to the "lodestar," which the Supreme Court holds as the "guiding light of [its] fee-shifting jurisprudence." *Perdue v. Kenny A. ex rel. Winn*, 559 U.S. 542, 551 (2010). To determine the lodestar, a court considers the amount at stake for the client, the results actually obtained, the sophistication of the work, the prevailing forum rates, and the actual fee agreement between the firm and client. *See Bywaters v. United States*, 670 F.3d 1221, 1232, reh'g denied, 684 F.3d 1295 (Fed. Cir. 2012). Federal Circuit, rather than regional law, controls the calculation of reasonable attorney fees in a patent infringement case. *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1299 (Fed. Cir. 2004).

The Federal Circuit has also emphasized that a reasonable attorney fee is "a determination that lies primarily within the discretion of the district court," which may "consider all the relevant circumstances in a particular case." *Takeda Chem. Indus. v. Mylan Labs., Inc.*, No. 03CV8253, 2007 WL 840368, at *3 (S.D.N.Y. Mar. 21, 2007), aff'd, 549 F.3d 1381 (Fed. Cir. 2008) (quoting *Junker v. Eddings*, 396 F.3d 1359, 1365–66 (Fed. Cir. 2005)). In patent infringement cases, the district court may also consider the American Intellectual Property Law Association ("AIPLA") surveys of typical litigation costs. *See, e.g., Takeda Chem. Indust.*, 2007 WL 840368, at *3 (citing Mathis v. Spears, 857 F.2d 749, 755 (Fed. Cir. 1988)).

III. Southwest's Reasonable Fees and Costs

As detailed in the Ciccarelli declaration (Ex. A) and Giust declaration (Ex. B), the fees and costs that Southwest incurred defending itself in this action totaled $451,339.86. That included handling the district court litigation and two *inter partes* reexaminations with the USPTO – one for the '770 Patent (the patent-in-suit), and one for the '047 Patent (a related patent that Deep Sky threatened to assert against

Southwest). However, Southwest is not requesting fees and costs associated with the reexamination of the ’047 Patent, and is instead seeking fees and costs only in connection with the district court litigation and the reexamination of the ’770 Patent. As a result, Southwest is only requesting a total **$387,182.91** in attorneys’ fees and costs under Section 285, 28 U.S.C. § 1920, and the Court’s inherent authority.[1] Of that total, $359,733.17 is attorneys’ fees and $23,082.48 is non-taxable costs, both of which are recoverable under Section 285. And $4,367.26 is taxable costs under 28 U.S.C. § 1920.[2]

A. The Total Amount is Reasonable Compared to AIPLA’s Survey.

The Court may consider the American Intellectual Property Law Association (“AIPLA”) surveys of typical litigation costs when determining whether an award of attorneys’ fees is reasonable. *See, e.g.*, *Takeda Chem. Indust.*, 2007 WL 840368, at *3 (citing Mathis v. Spears, 857 F.2d 749, 755 (Fed. Cir. 1988)). As demonstrated in Exhibit , Deep Sky intended to seek between $2.5 million and $32 million if the case proceeded to trial.[3]

According to AIPLA’s Economic Survey for 2013,[4] for cases with $1 million to $10 million at risk, the average litigation costs are $1.229 million and $1.6 million in the 3rd quartile through discovery alone. For cases with $1-10 million at risk, the average litigation costs are $2.1 million inclusive of all costs. For cases with $10 million to $25 million at risk, the average litigation costs are $2.192 million and $3.0

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[1] Southwest is not requesting fees or costs for the reexam of the ’047 Patent, which totaled $64,156.95 as shown in Exhibit 2 to the Ciccarelli declaration.

[2] Exhibit C – Bill of Costs.

[3] J. Pettit letter to M. Ciccarelli dated March 25, 2011 at page 8, attached as Exhibit 3 to Ciccarelli declaration.

[4] All data cited from AIPLA’s economic survey is provided in Exhibit A – Ciccarelli declaration.

million through discovery alone. For cases with $1-10 million at risk, the average litigation costs are $3.554 million inclusive of all costs.

Further, AIPLA's survey shows that for 2013, the average cost for an *inter partes* reexamination, inclusive of an appeal to the Board,[5] is $201,000. While AIPLA does not have specific data on *inter partes* reexaminations for firms in the Southern District of California, for firms in Texas, the average cost for an *inter partes* reexamination, inclusive of an appeal to the Board, is $250,000, and the 3rd quartile for firms in Texas is $475,000. For firms in the San Francisco area, the average cost for an *inter partes* reexamination, inclusive of an appeal to the Board, is $264,000, and the 3rd quartile for firms in San Francisco is $375,000 Southwest submits that the fees charge in the Southern District of California are likely similar to those charged in Texas and San Francisco.

When compared to such figures, Southwest's request for **$387,182.91** is objectively reasonable. Notably, the entire lawsuit was resolved for less than the median litigation costs of taking a $1 million case through discovery. In this case, Southwest was required to engage in preliminary discovery to produce technical documents along with its invalidity contentions. Further, while the reexamination for the '770 Patent was more complex than a normal reexamination because of Deep Sky's repeated attempts to use Section 131 declarations from Dr. Gorman, the overall cost of this entire case was commensurate with what AIPLA's survey shows is the costs for an *inter partes* reexamination for firms in in Texas and San Francisco in the 3rd quartile.

B. The Court May Award Attorneys' Fees for the Reexamination.

The Parties agreed to stay the case pending the *inter partes* reexamination of the only patent-in-suit, the '770 Patent. [Doc. No. 26]. In jointly requesting the stay,

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[5] The Patent Trial and Appeal Board, formerly the Board of Patent Appeals and Interferences.

Deep Sky agreed that this course was more cost-effective than district court litigation. *Id*. Had the Parties litigated this case in district court, and pursued Dr. Gorman's inequitable conduct through protracted discovery and depositions, Southwest's fees would have been substantially higher just to arrive at the same result. This further supports the reasonableness of the fees actually incurred.

Additionally, the Federal Circuit has not limited attorneys' fees by the type of activity. Instead, attorneys' fees under Section 285 include "those sums that the prevailing party incurs in the preparation for and performance of legal services related to the suit." *Maxwell v. Angel-Etts of California, Inc.*, 53 F. App'x 561, 569 (Fed. Cir. 2002) (quoting *Central Soya v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1578, 220 USPQ 490, 493 (Fed. Cir. 1983) (internal quotations omitted). In this case, the lawyers for Southwest, in preparing for and performing legal services related to the suit, chose to litigate part of the dispute – the validity of the patent – before the PTO instead of before the district court. Thus, according to the guidance by the Federal Circuit in the above-cited cases the sums incurred in the reexamination proceeding are recoverable here.

Additionally, as evidenced by the joint motion to stay the case pending resolution of the reexamination proceeding [Doc. No. 26], the Parties agreed that the chosen course of action would be less costly than litigating the same issue before the district court. Had the Parties litigated the validity issue in district court, it would have resulted in considerably higher attorney's fees being incurred to reach the same result. Thus, not only were the fees incurred in the reexamination necessary as part of the district court litigation, but they were lower than they would have been if the validity issue had been litigated in district court.

C. The Requested Fees are Reasonable Compared to the "Lodestar."

An application for attorney's fees must be evaluated for reasonableness compared to the "lodestar," which the Supreme Court holds as the "guiding light of

[its] fee-shifting jurisprudence." *Perdue v. Kenny A. ex rel. Winn*, 559 U.S. 542, 551 (2010). To determine the lodestar, a court considers the amount at stake for the client, the results actually obtained, the sophistication of the work, the prevailing forum rates, and the actual fee agreement between the firm and client. *See Bywaters v. United States*, 670 F.3d 1221, 1232, reh'g denied, 684 F.3d 1295 (Fed. Cir. 2012). Federal Circuit, rather than regional law, controls the calculation of reasonable attorney fees in a patent infringement case. *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1299 (Fed. Cir. 2004).

This was a patent infringement lawsuit directed to computer systems, which is sophisticated work. The majority of the work on the case centered around invalidity of the '770 Patent. Deep Sky threatened to seek between $2.5 million and $32 million at trial,[6] demonstrating that the amount at stake was substantial. The results were a complete vindication for Southwest.

Further, Thompson & Knight's hourly rates for this case are objectively reasonable when compared to AIPLA's economic survey. This case began in late 2010 and concluded in early 2015. According to AIPLA's Survey, private firm partners in Texas, on average, were billing at an hourly rate of $469 in 2012. Private firm partners in the 3rd quartile were charging $570 per hour. Private firm associate in Texas, on average, were billing at an hourly rate of $339, and those in the 3rd quartile were billing at $400 per hour.

The following is a table demonstrating that the hourly rates for the attorneys primarily responsible for handling this matter are well within the range provided by AIPLA's Economic Survey for 2012 in Texas, which is the latest data provided by AIPLA:[7]

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[6] *See* J. Pettit letter to M. Ciccarelli dated March 25, 2011 at page 8, attached as Exhibit 3 to Ciccarelli declaration.

[7] See Exhibit A – Ciccarelli declaration.

Name/Title	Hourly Rates from 2010-2015	AIPLA Average	AIPLA 3rd Quartile
Max Ciccarelli Partner	$505 – $625.50	$546	$678
Michael Heinlen Partner	$405 – $535.50	$546	$678
Justin Cohen Associate	$345 – $481.50	$391	$518
Vishal Patel Associate	$270 – $315	$391	$518

The rates Thompson & Knight charged Southwest were less than the rates charged by similar attorneys in Texas in the 3rd Quartile of AIPLA's survey in 2012. Finally, Southwest has paid the fees that are being requested. Accordingly, based on the "lodestar," Southwest's requested fees are reasonable.

IV. Conclusion & Request for Final Judgment

As set forth above, Southwest hereby requests **$387,182.91** as an award of attorney's fees under Section 285, under the Court's inherent authority, and as taxable costs. Southwest also requests that the Court enter final judgment in this matter as shown in the attached proposed order.

DATED: June 18, 2015

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on June 18, 2015, I electronically filed the foregoing document with the Clerk of the Court using the CM/ECF System.

s/ *Justin S. Cohen*
Justin S. Cohen